

Private and Confidential
Professor Sir David Eastwood
Chair, Universities
Superannuation Scheme Ltd
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Our ref: C134794663

14 October 2019

Dear Sir David

**Universities Superannuation Scheme (the Scheme)
Actuarial valuation as at 31 March 2018 (the 2018 Valuation)
Actuarial valuation as at 31 March 2020 (the 2020 Valuation)**

Thank you for your letter of 27 September 2019 and for sharing my earlier letter of 11 September with the Joint Negotiating Committee (JNC), the University and College Union (UCU) and Universities UK (UUK). Thank you also for the recent submission of the 2018 Valuation funding summary and supporting documents.

Option 3 and our comments

Your letter set out a summary of the Trustee's rationale for settling on Option 3 as the basis for the 2018 Valuation. Although our substantive comments on your Option 3 have been set out in my 6 August and 11 September 2019 letters, the key comments from those letters still apply:

- The technical provisions are at the limit of what we consider to be compliant with the funding requirements of Part 3 of the Pensions Act 2004 (the Act) (the Funding Requirements).
- The recovery plan period of 10 years is longer than we generally deem appropriate for, or consistent with, a 'strong' or 'tending to strong' covenant; and, therefore, a shorter recovery plan would be more appropriate for this Scheme.
- Given the significant deterioration in the funding position since the effective date of the 2018 Valuation, it is important the Trustee quickly puts in place a permanent framework that allows it to react swiftly and in a meaningful way to potential further deteriorations.

Our position on 2018 Valuation

We confirm, having had regard to TPR's objectives and priorities, we do not intend to carry out further funding investigations in relation to the 2018 Valuation. This is based on the material you have provided to us to date. If there is a material change in circumstances and/or we receive information which is materially different from that provided, we may change our position.

This is not confirmation that the 2018 Valuation complies with the Funding Requirements. It is the responsibility of the trustees to satisfy themselves of compliance. Nor does it relate to (or provide any comment on) the exercise (or potential exercise) of any of TPR's other powers.

2020 Valuation, monitoring and action framework

In our earlier letters, we also set out our high-level expectations in relation to the 2020 Valuation. Most important of these is the need for the Trustee to adopt (and be able to explain) an approach that clearly demonstrates how member benefits will be protected. It is for this reason one of the key focuses of interaction with the Trustee on the 2020 Valuation will be on understanding how you will be putting in place a clear, robust and meaningful monitoring and action framework. In your letter, you outline the steps being taken in that regard. We look forward to receiving timetables for both workstreams soon and will discuss the plans further when we meet with Bill Galvin and Rene Poisson on 15 October.

Stakeholder Engagement

These workstreams are examples where the Trustee and its Executive should be communicating with the Scheme's stakeholders in a timely and transparent manner. This level of communication should ensure these stakeholders have a good understanding of the risks. This should, it is hoped, facilitate better outcomes. Trustee communication is an important area, and it is one where we consider further work is required by the Trustee. We look forward to hearing how the Trustee and Executive intend to engage with other stakeholders on these (and the other) issues we have discussed with the Trustee.

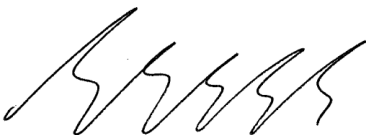
20 November board and further TPR engagement

Your offer to us to attend the 20 November Trustee board meeting is appreciated and accepted. We are also attracted to your idea for a meeting in the very near term specifically on the monitoring and action framework as well as a meeting with a number of the Trustee Directors. Again, we will pick all this up with Bill and Rene on 15 October.

More generally, we would like to be kept regularly updated on progress on both of these key workstreams so that we are able to feed in our comments in 'real time'. This is our preferred approach rather than feeding in after key decisions have been made (whether by the Trustee itself or the Executive, in terms of it settling on a preferred approach that it recommends the Trustee adopts). This means we expect a departure from our recent experience, with our involvement to come *well before* final, material recommendations are put to the Trustee.

As with previous correspondence, we consider it would be appropriate for this letter to be shared with the JNC and with UUK as formal consultee. Please can you confirm if you are comfortable with this

Yours sincerely,



Mike Birch
Director of Supervision
The Pensions Regulator